

Message Text

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EXDIS

FOR THE SECRETARY FROM AMBASSADOR

EO 11652: GDS

TAGS: BEXP EG

SUBJECT: IMPASSE IN BECHTEL NEGOTIATIONS

REF: CAIRO 461

1. BECHTEL TEAM, HEADED BY PRESIDENT JOHN O'CONNELL, HAS BEEN NEGOTIATING WITH SUMED OFFICIALS PAST TWO DAYS. THEY REACHED AN IMPASSE IN THEIR NEGOTIATIONS AS OF THE MORNING OF JANUARY 29. ACCORDING O'CONNELL, WITH WHOM I HAVE JUST DISCUSSED MATTER AT SOME LENGTH, THIS CENTERS ON THREE POINTS:

A. FINANCIAL, WHICH IS THE MOST IMPORTANT OF THE THREE AREAS OF DISAGREEMENT. SUMED OFFICIALS HAVE NOT RPT NOT BEEN ABLE TO PROVIDE SATISFACTORY BANK GUARANTEES AND LETTERS OF CREDIT AS HAD BEEN THE INTENTION UNDER PREVIOUS NEGOTIATIONS AND IN CONTRACT AS SIGNED ON DECEMBER 14, 1973. BECHTEL REQUIRES STANDBY LETTER OF CREDIT BY JANUARY 31 IN AMOUNT OF DOLLARS 275 MILLION TO COVER PAYMENTS THAT IT MUST MAKE TO SUBCONTRACTORS FOR PURCHASE OF MATERIALS. DURING DISCUSSIONS SUMED OFFICIALS STATED THAT THE DOLLARS 200 MILLION CONTRIBUTION OF SAUDI ARABIA, KUWAIT, ABU DHABI AND QATAR SHOULD BE SUFFICIENT GUARANTEE FOR BECHTEL. ONLY DOLLARS 50 MILLION OF THIS HAS BEEN PAID IN, WITH OTHER 150 MILLION TO BE

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PAID INTO SUMED COMPANY OVER A THREE YEAR PERIOD. AS

OUTSIDE TIME LIMIT SET ON BECHTEL FOR THE COMPLETION OF THE PIPELINE IS THIRTY MONTHS. THIS IS UNACCEPTABLE TO BECHTEL. BECHTEL OFFICIALS POINTED OUT THAT THEY HAVE ALREADY ENTERED INTO AGREEMENTS WITH MAJOR SUBCONTRACTORS FOR STEEL PIPES (MONTUBI OF ITALY) AND TANKAGE (CHICAGO BRIDGE AND IRON PURCHASING STEEL IN WEST GERMANY) AND THAT UNLESS THESE CONTRACTS CONFIRMED BY EFFECTIVE DATE OF CONTRACT (JANUARY 31) THERE WILL BE PENALTIES TO PAY AND PRICES WILL HAVE TO BE NEGOTIATED, WHICH WILL RESULT IN HIGHER COSTS.

B. UNDER A SIDE LETTER TO THE DECEMBER 14 CONTRACT IT WAS AGREED THAT BECHTEL WOULD HAVE PRICE RELIEF IF COSTS WENT OVER CERTAIN MARK. BECHTEL THINKS THAT IT WILL BE ABLE TO MEET ORIGINAL BID. HOWEVER, SUMED OFFICIAL NOW INSISTING THAT HE MUST REVIEW ALL PURCHASE ORDERS, AND THAT ORDER MUST BE SHOPPED BY BECHTEL. FOR EXAMPLE, HE SUGGESTED THAT BECHTEL TAKE CBI TANKAGE BID TO MOTHERWELL OR ENGLAND. BECHTEL POINTED OUT THAT CBI BID LOWEST (EVEN THOUGH IT SIX MILLION DOLLARS OVER ORIGINAL BID) AND THAT BRITISH BID WOULD BE HIGHER. BECHTEL ADAMANT THAT THEY CONTROL PURCHASING AND PLANNING, OTHERWISE COST INCREASES AND DELAYS WILL SERIOUSLY ENDANGER COMPLETION OF PROJECT ON SCHEDULE.

C. FINAL POINT OF DISAGREEMENT CONCERNS SIDE LETTER WHICH DEALT WITH POSSIBILITY THAT BECHTEL WOULD BE FORCED TO DISCONTINUE OPERATIONS IN EGYPT BY USG. IN LETTER BECHTEL STATED THAT THEY KNEW OF NO SUCH LAW, BUT IN EVENT SUCH LAW PASSED THEY WOULD UNDERTAKE TO HAVE PROJECT COMPLETED BY SUBSIDIARY OR PAY FOR PROJECT COMPLETION. BECHTEL WISHES LETTER REMOVED FROM CONTRACT.

2. BECHTEL OFFICIALS POINTED OUT THAT EFFECTIVE DATE OF CONTRACT EXTENDED FROM JANUARY 1, 1974 TO JANUARY 31 AT REQUEST OF SUMED OFFICIALS IN ORDER FOR FINANCING PACKAGING BE COMPLETED. AT THIS JUNCTURE, IT OBVIOUS THAT FINANCING FAR FROM COMPLETION, AND THAT SUMED OFFICIALS UNABLE PROVIDE NECESSARY GUARANTEES REQUIRED BY BECHTEL. TODAY'S MEETING, ACCORDING O'CONNELL AND SECRET

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HIS COLLEAGUES, DEMONSTRATED A COMPLETE COMMUNICATION PROBLEM WITH KRUSH. AS YET NO MEETING SCHEDULED FOR TOMORROW, BUT O'CONNELL SAYS INITIATIVE FOR ANY SUCH MEETING MUST COME FROM EGYPTIANS. IF EGYPTIANS UNABLE OR UNWILLING TOMORROW ARRIVE AT SOME ARRANGEMENTS SATISFACTORY TO BECHTEL, O'CONNELL AND HIS COLLEAGUES PLAN LEAVE. THEY ARE RELUCTANT DO SO SINCE THEY FULLY RECOGNIZE IMPORTANCE OF PROJECT TO US-EGYPTIAN RELATIONS, BUT CLAIM

THEY WILL HAVE NO CHOICE.

3. I OFFERED BE OF ANY ASSISTANCE AND BECHTEL GROUP
ASKED I GET WORD OF IMPASSE TO SENIOR GOE OFFICIALS. I
WILL ENDEAVOR DO SO THROUGH FAHMY LATER THIS EVENING.
FINANCIAL PROBLEM LIKELY BE STICKY, HOWEVER, SINCE
NEITHER EGPC NOR SUMED (WHICH LEGALIZED BY PEOPLE'S
ASSEMBLY ONLY YESTERDAY) HAS, ACCORDING BECHTEL, MADE ANY
OF PROMISED FINANCIAL ARRANGEMENTS. EGYPTIAN ENGINEER
KRUSH, WHO WAS PRINCIPAL NEGOTIATOR AND IS HEAD OF SUMED
PIPELINE COMMITTEE, SHOWS SIGNS OF TRYING TELL BECHTEL
HOW TO DO THE JOB, WHICH O'CONNELL POINTED OUT WOULD
BE DISASTROUS COST-WISE. WE AGREED KEEP IN TOUCH TOMORROW
RE POSSIBLE MEETING.

4. YOU MAY WISH PASS FOREGOING TO SECRETARY SCHULTZ
WHOM O'CONNELL PROMISED TO KEEP INFORMED.
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